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SUBJECT: MERKEL AND WESTERWELLE PLAN COALITION TALKS WHILE SOCIAL DEMOCRATS REEL FROM ELECTORAL DISASTER

REF: BERLIN 01197

**¶1.** (SBU) Summary: Chancellor Merkel met on Monday, September 28 with her future Vice Chancellor and probable Foreign Minister Guido Westerwelle to plan coalition negotiations, with the goal of having a new government in place for the November 9 20th anniversary festivities of the fall of the wall. The new Bundestag is expected to meet on September 27 and the coalition parties would like to be able to put a new government in place as soon as possible after that. Westerwelle was being cautious in his policy demands and refusing to discuss personnel issues altogether. Tensions are likely to arise, however, between Merkel's apparent desire to emphasize policy continuity and Westerwelle's need to show that his Free Democratic Party (FDP) can be as consistent in government as it has been in opposition. Meanwhile, the Social Democratic Party (SPD) is reeling from the dimensions of its defeat on September 27 -- which cost the parliamentary caucus a third of its members. Although chancellor candidate and soon-to-be ex-Foreign Minister Frank-Walter Steinmeier was elected Bundestag caucus chairman, more and more Social Democrats are demanding a thorough-going leadership shakeup and policy reorientation to win back the lost support. End Summary.

#### Merkel Taking Control of Coalition Negotiations

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**¶2.** (U) Looking self-confident and relaxed, Merkel made clear that she was in charge of coalition negotiations September 28 and had a busy round of press appearances, including interviews on both major television stations that Monday evening. Merkel said that she hoped a new government would be in place by November 9, and formal coalition negotiations are slated to begin on October 5. She hosted Westerwelle at the Chancellery for an hour on September 28 and met with Bavarian Minister President and Christian Social Union (CSU) party chief Horst Seehofer privately the next day. Seehofer is facing considerable criticism from within his own party after the CSU suffered its lowest Bundestag election result in history. Merkel appeared to be downgrading the CSU's independent role within the coalition negotiations, saying on September 28 that the talks will not be between three parties -- as they were in 2005 -- "rather the Union will negotiate with the FDP." She also noted that she did not plan to change her leadership style and would continue to reach out across partisan divides rather than present herself as the CDU party chief. She also rejected a need for major policy change and stood by Grand Coalition legislation that established a minimum wage in selected sectors of the economy and also rejected the need for privatization of health insurance. Merkel would not be pinned down on when the new coalition would cut taxes but she did say quick action was necessary on reforming the inheritance and business taxes.

**¶3.** (U) Westerwelle looked happy but was unusually cautious

in his public statements. He continues to refuse to discuss personnel issues -- although speculation on future cabinet positions is currently a chief preoccupation of the Berlin press -- and he appeared to step back from earlier campaign demands for major tax reform. While he told the press that he stands by his view that a "fair" tax system is the basis for sound government finances, he did not repeat his earlier claim to reject any coalition agreement that did not include major tax cuts and reform. Westerwelle refuses to say publicly that he will become Foreign Minister, and the FDP Bundestag caucus, now 93 members strong and containing several politicians who never expected to be coming to Berlin, unanimously reelected him as caucus chairman to enter the coalition negotiations with the full support of the FDP. There seems to be no doubt, however, that he will become the next foreign minister, and the influential daily, Frankfurter Allgemeine, referred to FDP foreign policy expert Werner Hoyer as the future Minister of State at the MFA.

#### The SPD in Disarray

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¶4. (SBU) While the CDU/CSU and FDP prepare for their new coalition, the SPD is in near complete disarray as the full dimension of its losses become clear. A third of the members of the Bundestag caucus are without jobs, and party chief Muentefering's attempt to keep control over the transition to opposition has been overwhelmed by the desire to hold someone accountable for the party's historic defeat. SPD General Secretary Hubertus Heil announced his resignation on September 27, Finance Minister Peer Steinbrueck said he would step down as vice chairman, and Muentefering will also have to make way for someone else at the SPD convention in mid-November. Although Steinmeier was elected Bundestag

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caucus chief, he had to give up any claim to the party chairmanship. Leftwingers in the party are demanding new leadership and a repudiation of former Chancellor Schroeder's Agenda 2010 reforms and the party's role in extending the retirement age to 67 during the Grand Coalition. Current Environment Minister Sigmar Gabriel could be a compromise candidate for the party leadership, although leading left-winger Andreas Nahles is another less likely choice. So far, Steinmeier's strong support for ISAF has not been a point of contention, but if a member of the left wing wins the party leadership, he or she could also try to alter this SPD position on this as well.

¶5. (SBU) Comment: The future coalition partners have considerable incentive to conclude coalition negotiations before Berlin hosts representatives from across Europe and the world on November 9. Merkel appears confident of her ability to maintain control of her party and the coalition negotiations, despite the strong position from which Westerwelle and the FDP enter talks. Westerwelle -- enjoying even greater control of his own party due to its tremendous success in recent years -- will be loathe to give up the hard-fought credibility he has won by sticking to a simple political message of lower taxes and the less government. He will need to show his stamp on government policy to convince all the millions of new FDP voters that it is worth supporting the FDP, or he may suffer the fate that both the SPD and CDU/CSU has experienced in recent years, when the realities of government have forced them to adopt policies that have led to their recent decline. End Comment.  
Murphy